12/83 R-1105-29.82/A

Research Bulletin

Labor Outlook, 1984

by Audrey Freedman et al

The Conference Board

number 150

THE CONFERENCE BOARD'S 1984 LABOR OUTLOOK PANEL

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The Conference Board's annual session on the labor outlook took place on November 3, 1983. Panel members discussed the current economic situation, compensation trends, labor relations, and political events. This process provided the predictions for 1984. The individual views quoted were submitted by the participants.

[1]Not present on November 3rd; comments submitted by letter.

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LABOR OUTLOOK, 1984

Meeting in the midst of a strong economic recovery, The Conference Board's Labor Outlook panel was nevertheless sober—and even grave—in evaluating the mid-1980's. The only possible response to current pressures in the economy is far-reaching structural change. All panel members acknowledged this, yet all addressed one or another of the difficulties and hard choices that are now being pressed upon us. In particular, the panel discussed the effects of competition.

Competition has harshly disciplined U.S. management in the 1980's. The result has been discontinuity and discomfort: sharp cost-cutting and efficiency moves; drastic business restructuring, voluntary and involuntary.

Table 1: Forecasts for 1984 by The Conference Board's Labor Outlook Panel

	Median (Percent)	*Range (Percentages)*
Overall increase in average hourly earnings, January, 1984 through December, 1984	5	3 to 6.5
First-year wage and benefit increases in major union contracts	5	3 to 6.5
Increase in labor costs per unit of output in manufacturing	3	-2 to 4
Rate of inflation (average increase in Consumer Price Index)	5	4 to 6
Unemployment average during 1984	8.5	8.4 to 9
First quarter	9	8.8 to 9.1
Second quarter	8.7	8.5 to 9
Third quarter	8.5	8.3 to 9
Fourth quarter	8	8 to 9

The labor-market effects are being felt acutely. In industries where wages had risen (and been bargained) far beyond market levels, cuts in wages and cuts in employment have become essential to survival. Shifts in employment, out of inefficient and uncompetitive manufacturing (and even service) industries are continuing. Although adaptation to a competitive environment is occurring, it is leaving some intractible unemployment and dependency in its wake.

Competition in the labor market is being greatly intensified by the recessions of the early 1980's, and by the structural shift under way. The pressure of millions willing to work for less has undercut the unions' wage advantage, and the strike sanction as well. Unions see their wage power undermined by the nine million unemployed, by uncounted immigrant workers, by worldwide labor supplies available to overseas producers. The only survival strategy for unions is to help their firms get competitive, fast. But this is hard going where the union (and management) tradition has been adversarial; and union-represented employees have been uninvolved in the enterprise.

The recessions of the 1980's have created unemployment levels not reached since the "great depression." The Conference Board Labor Outlook panel expects only moderate improvement here. (See Table 1.) It predicts that wage increases will remain at about the 5 percent level they have currently reached, and that consumer price inflation for 1984 will be about 5 percent.

The panel's predictions for increases in average hourly earnings, negotiated wage changes, and inflation appear to be somewhat higher than 1983 experience to date. However, closer examination of current trends suggests that they are projecting a pause or plateau in each measure—not reignited inflation. The Employment Cost Index rose 5.1% between the third quarters of 1982 and 1983.[1] Average hourly earnings rose 4.1 percent between October, 1982, and October, 1983.[2] A prediction of a 5 percent general wage increase for production workers indicates that the panel does not expect the recovery to excite a wage explosion.

Union-negotiated wage increases have shown a bimodal distribution for two years, making averages less meaningful. For example, the average first-year increase in wages under new contracts negotiated in 1983 has been 1.7 percent (increases weighted by the number of employees covered). However, about 51 percent of the workers covered accepted wage cuts or wage freezes.

[1]Wages and Salaries only. U.S. Bureau of Labor Statistics, *Employment Cost Index*, released November 3, 1983, Table 2.

[2]U.S. Bureau of Labor Statistics, *The Employment Situation, October 1983*, released November 4, 1983, Table B-4.

Among the 49 percent receiving wage increases, the average (mean) was 6.1, and the median was 5.6 percent.[3] The unweighted first-year negotiated wage increase published by The Bureau of National Affairs shows a 4.6 percent rise in 1983; excluding construction, the increase was 5.1 percent.[4]

Some members of the panel appear to expect instances of wage cuts and freezes in 1984, where the struggle for survival is drawn out into the recovery. Yet the overall expected increase of 5 percent suggests that the panel expects moderate wage increases as the result of 1984 recovery bargaining. Again, no one is suggesting a wage explosion—or "catch ups"—to restore the levels or formulas of increase enjoyed by the same unions prior to 1982.

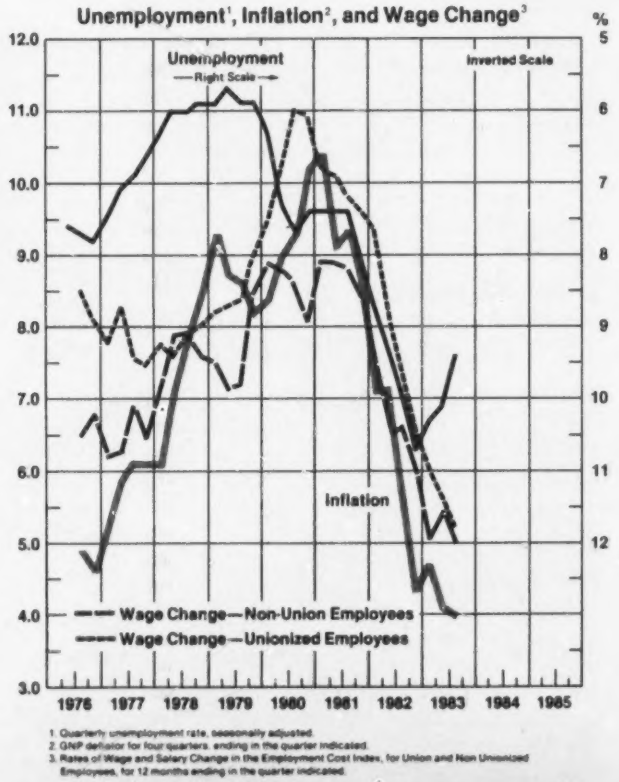
Predicted inflation rates are about the same as those that currently prevail. In the third quarter of 1983, the Consumer Price Index for Urban Wage Earners increased at a 5.2 percent rate. While the September, 1983, index was just 2.7 percent above its year-ago level, panel members felt that the disinflation occurring has not been fully perceived by the public. In any case, they see a 1984 inflation level of 5 percent.

ROBERT NEYLAN
Vice President
Employee Relations
Gould Inc.
Rolling Meadows, Illinois

Robert Neylan explained his wage predictions this way:

> "Labor, like it or not, is a commodity—as supply goes up, its price goes down. Pay budgets for salaried workers and supervisors will probably average 6 percent to 6.5 percent, reflecting continued concern about economic conditions. Opportunities for college graduates, other than those with technical or engineering credentials, will be available at pay levels equivalent to those offered in 1982. Against this background, I would not anticipate movement of facilities to take advantage of surplus labor.
>
> "If the recovery continues into 1984 at the same pace as we have seen in 1983, I would expect wage increases to be higher, but still subject to considerable restraint. The rate of increase will rise only because there won't be many more 'concession bargains.' Pay cuts, in the nonunion sector and among salaried workers, will be few and far between. Inflation will pick up momentum, but only in relative terms. It is hard to imagine a continuation of inflation rates at the 2.9 percent level we enjoyed during the first half of 1983. Some of that low rate was due to falling prices resulting from inventory sell-off and discounting.
>
> "Union bargainers in 1984 are still going to proceed cautiously because of the very real threat of unemployment. The same restraint will apply to nonunion workers. When we talk about recovery in 1984, an unemployment rate of between 8 and 9 percent is still in the background—considerably above the rate at full employment, or the 'natural' rate of unemployment. In addition, business will still have idle capacity, restraining price increases which could result in loss of market share. The hesitation to raise prices will be translated into hesitation about accepting cost increases, including wages, that cannot be recovered. In short, when we talk about recovery we are not anticipating a boom, merely a recovery."

Chart 1



[3]U.S. Bureau of Labor Statistics, *Major Collective Bargaining Settlements in Private Industry*, released October 28, 1983, Table 2.

[4]Bureau of National Affairs, Inc., *Daily Labor Report*, October 28, 1983, #210, p. B-1. This series reports contracts covering 50 or more people; the Bureau of Labor Statistics series includes only contracts covering 1,000 or more people.

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JOHN J. RICHARDSON
Vice President—Industrial Relations
Northrop Corporation
Los Angeles, California

In the midst of recovery, there will still be industries so affected by competition that company survival remains in question. Some companies will be cutting costs to save their lives. John Richardson observed:

"There are certain industries that will not actively participate in the recovery. For example, the airlines, energy, steel, agricultural implements, commercial construction, and trucking industries have been extremely hard-hit by the recession. Their growth will be checked by increased competition stemming from deregulation (airlines, trucking), the flood of lower-price imports resulting from the strong dollar (steel, agricultural implements), and the emergence of very competitive nonunionized companies (steel, airlines, trucking). I think there is very little chance of any payroll growth in many of these industries before the 1984 elections.

"The unemployment rate is high as compared with previous recoveries. As a result, wage growth is being held in check. The combination of labor surplus and high unemployment rates is cutting into labor's unionized and nonunionized, bargaining power. The jobless rate should stay above 8.5 percent through 1984. This high rate in conjunction with moderate productivity growth (3 to 4 percent) will keep a lid on unit labor costs.

"The new rate for 'full employment' will not exceed 93 percent of the labor force. We are seeing an economic recovery derived from a slow, sustained growth in a time of large deficits, high interest rates, and relatively high unemployment."

Don Ephlin described the very weak recovery in industries organized by his union:

"Although there have been some employment gains in the recovery, the UAW is seeing a trickle rather than a flood. In some sectors, this is partly due to outrageous levels of overtime demanded from active workers while millions remain unemployed.

"In the auto industry, blue-collar employment dropped by over 300,000; only a third of those people are back at their jobs. In farm equipment and construction machinery and equipment, the work force has declined 40 percent from its 1979 peak and remains very close to its trough, as very few workers have been called back from layoff. Hourly employment in aerospace is about 20 percent down from its recent peak, and showing no signs of solid recovery.

"I am not particularly optimistic about the near-term employment prospects in any of these UAW industries. All of them depend to a very worrisome extent on the path of interest rates and the course of monetary policy—which, in turn, exert great influence on the value of the dollar. That is clearly the weakest link in the current upturn.

"In the auto industry, the consensus outlook for 1984 is for more improvement in auto sales. However, the auto recovery is looking less robust than a few months ago: The domestic annual sales rate for new cars averaged 7.3 million in the May 21 to July 31 period, but only 6.7 million in the August 1 to October 10 period.

"In the heavy truck, farm and construction equipment industries, sales gains have been spotty. Because of high factory and field inventories, production volume will probably remain depressed well into 1984. Finally, aerospace employment has been clobbered by the downturn in the commercial segment of the industry, while the increase in government purchases for defense has added people to the salaried echelons, but has not yet resulted in many blue-collar jobs."

Each panel member at some time in the proceedings agreed with Ted Marston's statement that "there will be pressures to make this recovery last through all of 1984, because 1984 is an election year." William Winpisinger wrote:

"The recovery can be expected to continue at least until Election Day in November, 1984. The government's ability to regulate the economy through manipulation of interest rates, defense contracts, and so on, is well proven, and this ability to manage the economy will be used in a way that enhances reelection of the incumbents.

WILLIAM W. WINPISINGER
International President
International Association of Machinists and Aerospace Workers (AFL-CIO)

"The greater numbers of people seeking employment will tend to depress wages (the classic result of supply and demand in the labor market) and, with employers able to draw upon a larger pool of unemployed, more workers without skills will be condemned to continuing and chronic joblessness.

"The continuing and accelerating encroachment of technology into the work place will assuredly push traditional levels of minimum unemployment higher than was considered normal in the 1950's (4 percent) or the 1960's (5 and 6 percent). The economy will be fortunate if the rate of structural unemployment goes no higher than 8 to 9 percent."

Manufacturing employment will not increase in this recovery, according to most panel members. Having reduced their break-even points in order to survive two back-to-back recessions and ever-increasing competition, the "survivors" are not going to revert to inefficient operation now. Moreover, the least efficient capacity—old, high-cost facilities—has been closed permanently. Translating this shift into productivity terms, Robert Neylan said:

"A rapid increase in productivity is typical of recovery, but this recovery has a background unlike any other. All during the 1970's, the reality of foreign competition elicited a response from industry in the form of improved plant, equipment and processes. Efforts at automation and use of the computer as an aid in manufacturing were in progress when recession hit. At the same time, government deregulation policies were implemented. When recession struck in 1981, industry responded with almost unprecedented cost-cutting measures, and the depth of the recession induced concession bargaining, which attacked inefficient practices as well as wages.

"As we come out of the recession, there is a great deal of improved capacity, more efficient than ever, coming on-stream. Prior to and during the recession, the auto industry spent billions of dollars on improved facilities the primary purpose of which was to build cars with less labor and at lower cost. The automakers' profit recovery is as much due to cost cutting as it is to improving sales. In the steel industry, inefficient capacity has been abandoned and the remaining facilities, including the newer mini-mills, are producing at lower unit costs than was possible in the past. Deregulation is changing the dynamics of transportation, as railroads abandon unprofitable spur lines and reap the benefits of changing work rules. The success of Conrail is the result of years of effort, but the payoff is coincident with recovery as more goods are moved through the northeast corridor at lower cost.

"With plants operating at less than 80 percent of capacity nationwide, there is ample room for productivity increases into 1984. Automation is only now coming into its own and its effect on productivity and quality will be apparent throughout the 1980's."

If continued efficiencies are sought in old-line industries just to stay competitive, they will show little or no employment growth in the recovery. The shift of employment away from manufacturing and toward the production of intangibles (services) will continue. Earl Royse observed:

"If the current expansion peaks in 1986, we would look for a civilian unemployment rate of between 7.0 and 7.5 percent at that time. If it peaks later, the rate would be toward the low end of that range, but we don't expect it to go below 7.0 percent in this business cycle. If the economy peaks before 1986, we would expect the rate to be closer to 7.5 percent.

"It is interesting to examine the unemployment rate over the past four business cycles. After the expansion of the 1960's, the rate dropped to about 3.5 percent before the 1970 recession; just before the 1973-1975 recession it stood at about 5 percent; just before the 1980 recession, it was about 6 percent; and unemployment was almost 7.5 percent just before the 1981-1982 recession.

"On the surface, this pattern would lead a pessimist to believe that the next 'bottom' would be something over 8 percent. However, it is often revealing to view the entire period from about mid-1979 through the end of 1982 as one long period of economic 'malaise,' rather than as two recessions and one recovery. Viewed in that context, it seems logical to believe that the current expansion, if it is at all near normal, will drive the unemployment rate below the 7.5 percent we saw at the end of the aborted 1980-1981 'recovery'—*if* this cycle runs its course.

"In the foodservice industry, we are even more interested in what will happen *after* the current business recovery. We believe the unemployment rate will come down even further. Our industry employs a very large number of teenagers. During the 1970's, the population of people aged 15 to 19 grew by about 10.7 percent. The unemployment rate for this age group has recently been well above 20 percent. Over the 1980's, the number of people in this age group will decline by more than 19 percent. This will produce two results: We expect the unemployment rate for this group to be significantly lower in the next business cycle, and this group will carry less weight in determining the overall unemployment rate."

EARL C. ROYSE
Vice President, Human Resources
Saga Corporation
Menlo Park, California

The recovery labor market is looking a bit lopsided, however. Job losses due to recession and to the structural responses to competition have fallen particularly heavily on middle-aged men, many of whom have responded by withdrawing from the labor market. In the recovery to date, employment of middle-aged men has not increased. John Richardson described their situation:

"The unemployment rate for men 55 to 64 years old is usually the lowest of all categories. This is due primarily to their skill, experience and seniority levels in the labor force. However, when those individuals lose a job, they face a bleak future. The skills and experience which have provided their income for the past three decades are simply no longer required; their 'old jobs' no longer exist. The effect of new technology and the drive for efficiency in smokestack industries requires these individuals to develop new skills and abilities and probably to relocate if they plan to reenter the work force.

"The requisite training for these new skills is not available to many of these people. In addition, the fear and apprehension of having to start a new career with skills requiring extensive new training becomes a major hurdle for men in this age bracket.

"Their ability to take early retirement and work part-time in secondary markets is a major factor in allowing them to remain outside the labor force. This is in preference to beginning a job search requiring major investments—either additional training or relocating to another geographical area. For men in this age group, the family network of two or even three generations discourages relocation. Mobility is for the young at heart, not those who have an established socioemotional support structure. The search for a new beginning is not a welcome prospect for older men.

"Finally, the growing number of women in the work force has resulted in an ever-increasing number of two-earner families. In the event of the layoff of one person, a steady income is still coming into the household, relieving some of the pressure to accept employment on less favorable terms."

Don Ephlin added:

"Poor job prospects have caused large numbers of dislocated workers to drop out of the labor market. This includes not only the 'discouraged unemployed,' but also the involuntary early retirees. There are numerous cases where a long-time worker opts for retirement because of the near impossibility of obtaining new employment, even though he or she wants to work, and would stay on the job if it had not been eliminated. Health is often a factor in such cases: The long-service displaced worker may have been able to perform his or her job perfectly well, but when that job is lost, marginal health may force premature disability retirement."

DONALD EPHLIN
Vice President
United Automobile, Aerospace and Agricultural Implement Workers (AFL-CIO)

Robert Neylan observed:

"The growth of the underground economy, together with inaccuracies in the unemployment figures, should also be taken into account. Older men with physical skills are likely to enter unreported occupations, odd jobs and the like, that provide income—sometimes at very attractive levels. Having abandoned efforts to return to their basic occupation, possibly in a closed mill or shop, they find more or less meaningful work. Officially, they are classified as 'not working and not looking.' "

One of the panel members said that, in the United States, "we have never been in a situation where there was no region and/or industrial sector that was expanding and that would absorb the experienced. But we are now!" Ted Marston agreed:

TED MARSTON
Vice President-Personnel
Cummins Engine Company, Inc.
Columbus, Indiana

"Cummins Engine, like many capital equipment companies, will continue to take costs out of the organization, so we see little hope for many of the people now on layoff. A number of people will never be called back to work in the heavy manufacturing (auto, steel, truck, components) sector. In fact, I think we will see a continuation of the down-sizing of the work force that started in 1982. I see no other business sector where growth will begin to take up surplus people."

The unemployed should not be viewed as a stagnant, unchanging pool of individuals, commented one panel member. There is a constant flow into and out of unemployment, into jobs—and into dependence. Undoubtedly, people may be ranked in terms of their probability of becoming employed, using such characteristics as age and experience. And training programs, he added, only rearrange their sequence in line if the total number of jobs is not increased.

Immigration

The subject of immigration restriction, deliberately introduced into earlier *Labor Outlooks* (1981 to 1983), arose spontaneously at this meeting. Even though legislation was stalemated at the time of the meeting, some panel members think that restrictions will eventually be passed that put the burden of border control on employers.

In spite of an increasingly crowded labor market and high unemployment rates in the past several years, the United States is an attractive labor market to immigrants, especially from Mexico and South America. The inflow of most immigrants is "undocumented" and uncounted. Estimates made in the late 1970's placed undocumented immigrants at that time at between 3 and 6 million.

A job is what draws these immigrants to the United States. Thus, there are probably 3 to 6 million more *employed* persons than the 102 million that are officially estimated in the *Current Population Survey*. Among

other things, this suggests that the civilian unemployment rate for October, 1983, might be as low as 8.4 percent, rather than the estimated 8.8 percent of the measured and counted labor force.

The logical place to control "undocumented" immigration is at the point of hiring. And, with high unemployment in the early 1980's, increasing public approval of such controls was foreseeable. Even the Reagan Administration, with its emphasis on decontrol and noninterference with business, has supported legislation to make it an offense to employ undocumented aliens. If the legislation is passed, the issue of immigration into the labor force becomes an enforcement matter. But the numbers of uncounted employees may not change substantially. Incentives to find work in the United States are still strong; employer incentives to hire aliens may be only somewhat diminished.

Wage Negotiations

Competition, both domestic and international, affected union settlements throughout the recession—and now, beyond. Daniel Mitchell, who has kept careful track of concession bargains, said:

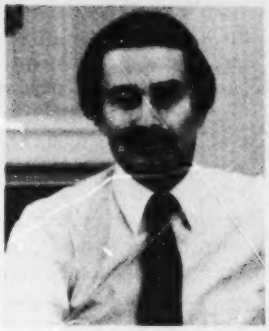
> "I think the thing to watch is not so much what people who bargain do—they will continue doing what they have done. However, the downward trend of unionization may have accelerated during the past few years, so that a smaller fraction of the work force will be covered by bargaining processes in the future. The proportion of workers covered by union contracts in construction, airlines, and other industries will surely be lower."

It was pointed out that as nonunion competitors appear and grow, unionized employers are going to press for work-rule and wage concessions for the sake of survival.

DANIEL J.B. MITCHELL
Director, Institute of Industrial Relations
University of California
Los Angeles, California

David Lewin expects a strong recovery to reduce unemployment and tighten the labor market, lifting wages generally:

> "One should anticipate greater rates of wage increase in 1984 than in 1983. A tightening labor market next year implies more rapidly rising pay and benefits.



DAVID LEWIN
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> "Among the factors that will contribute to compensation increase are (1) a lifting of pay freezes for blue-collar, white-collar, professional and managerial workers in various firms and industries; (2) a more aggressive collective-bargaining stand by unionized workers who know (or will know) about economic recovery and increasing firm profitability; and (3) increasing competition for certain types of occupational specialities that may be in relatively short supply.
>
> "One counterweight to the quickening pace of compensation increases that I predict for 1984 is the 'effective wage adjustments' that will occur as a result of wage and benefit bargains reached in 1982 and 1983. The concession-type bargains that predominated in the last two years or so will have the effect of slowing down rates of compensation increases in 1984 compared to what these rates would be otherwise. But because the total number of workers covered by long-term, deferred or effective pay adjustments is a relatively small portion of the total work force, this 'moderating' effect will clearly be more than offset by higher rates of compensation change for other workers."

Robert Neylan's assessment is that the parties to wage negotiation have not been "reformed" by the advent of heightened competition:

> "Whether pattern bargaining is dead or merely in abeyance goes to the broader question of the future strength of unions. Pattern bargaining obviously is surviving in the auto industry among the Big Three, and the UAW has every intention of forcing it into Nissan and Honda if given the chance. A pattern is definitely evolving in aerospace, based on the Boeing and Lockheed settlements. Patterns, after all, make life easier for everyone and they are easy to explain to the rank and file. In an industry in shambles, like steel, the pattern is in trouble, reflecting the chaotic economic situation of all the players. My basic premise is simply that negotiators, be they company or union, will become innovative only when forced to do so. Patterns are the antithesis of innovation and will return—if ever the economic situation reverts to the world of 1950.
>
> "There is no question that pattern bargaining has suffered a major setback as unions and employers concentrate on issues related to specific operations. Bread-and-butter issues take precedence over politics and philosophy even with unions and bargaining. While I am aware that there have been some variations in traditional bargaining approaches (that is, profit sharing, productivity plans, etc.), they appear

A Survey of Surveys: Salary Plans

	Level of Employee	1983 Salary Increase	1984 Planned Salary Increase
American Compensation Association	Executive	6.9%	6.7%
	Exempt Salaried	6.9	6.7
	Nonexempt Salaried	6.8	6.6
Executive Compensation Service, Inc. A Subsidiary of The Wyatt Company	All Salaried	N.A.	6.8%
A.S. Hansen	Exempt Salaried	7.1%	6.9%
	Nonexempt Salaried	6.9	6.7
Hewitt Associates	Executive	6.6%	6.6%
	Exempt Salaried	6.2	6.3
	Nonexempt Salaried	6.1	6.2
Sibson & Company	Executive	7.0%	6.8%
	Exempt Salaried	6.7	6.6
	Nonexempt Salaried	6.6	6.4

The information shown above requires some clarification. Although an economic recovery seems to be under way, planned salary increases for 1984 are, on the average, slightly lower than actual 1983 increases. There are at least two possible considerations involved. First, while the economic skies have brightened somewhat, there are still industries (for example, steel) that continue to experience hard times, with these difficulties reflected in low (or nonexistent) individual salary increase budgets. Second, the comparatively low rate of inflation at present has given companies an opportunity to escape from the necessity of using the salary-increase program to compensate for high cost-of-living. Thus, corporations are budgeting more conservatively and are able to devote attention to previously neglected internal considerations, such as improving the link between employee performance and pay.

Charles Peck
The Conference Board

to be limited to special situations and are viewed, in my opinion, as a stop-gap alternative to hourly increases.

"General Motors and Ford introduced profit sharing as a trade-off for COLA, and they linked payout to pre-tax profits as a percentage of U.S. sales. Ironically, Chrysler (which pioneered profit sharing among U.S. auto makers) did not follow the lead of GM and Ford, considering the concepts too costly in view of the catch-up increases forced on it. Eastern Airlines introduced its Variable Earnings Plan (VEP) in 1977, for a four-year term, and the plan had mixed reviews from the Machinists' union. In March of this year, the airline was forced to agree to a new contract that would have increased wages by 32 percent over an 18-month period. Portions of that agreement have since been renegotiated but the principle remains: Unions prefer a contract with fixed provisions to a piece of the pie."

In discussing 1984 bargaining, the panel members raised (but did not resolve) the question of whether there were any industries on the calendar (Table 2) where a reduction in wage levels may be forced by growing low-cost competition. There was a general feeling that concessions may still be made in construction. Several members observed also that the unionized supermarket chains are facing competitive pressures and have "just begun" to automate—so wage concessions may continue in that industry.

In this connection, "equality of sacrifice" issues were raised. If managerial pay increases projected for 1984 are in the mid-six-percent range (see box), why are concessions even being discussed? William Winpisinger warned: "do not expect many more concessions except where companies are able to prove dire financial difficulty." And Don Ephlin added:

"Worker's earnings have been taking a beating for a decade: All measures of labor income have dropped substantially during that period. Real family income, for example, is now down to 90 percent of its level ten years ago, in spite of the increase in the number of earners in each family. Among our members in the auto industry, weekly earnings (in July, 1983 dollars) have declined $40 since 1978. Workers are keenly aware of their falling living standards, as well as of the fact that the sacrifice has been unevenly distributed. During the recession, real earnings of executives, administrators and managers rose 6.8 percent, while machine operators and assemblers lost 6.2 percent of their purchasing power, and janitors and laborers lost an even greater 10.5 percent.

"The stage seems set for workers to act to recover those losses if the recovery continues, and as incomes from other sources (i.e., profits) are seen to soar. These efforts to upgrade earnings will be complemented by efforts to achieve greater job security, especially in light of continuing high levels of unemployment."

Table 2: Selected Major Contract Expirations by Industry, 1984

Month of Contract Expiration	*Industry*	*Company*	*Union*
January	Oil	Gulf, ARCO, Mobil, Shell, etc.	Oil, Chemical, and Atomic Workers
	Glass	Corning, PPG (in February)	Glass Workers; Aluminum, Brick and Glass Workers
	Shipbuilding	Litton	Metal Trades Council
February	Supermarkets	Kroger (variously through October), Weingarten	Food and Commercial Workers
	Textiles	Fieldcrest Mills	Clothing and Textile Workers
March*	Hospitals	Kaiser Foundation	Service Employees, Operating Engineers
	Utilities	S. California Gas Company	Utility Workers, Chemical Workers
	Food	General Mills	Grain Millers
April	Supermarkets	Safeway (Texas), Pathmark, Grand Union (New Jersey & New York)	Food and Commercial Workers
	Transportation Equipment	Cummins Engine	Diesel Workers Union
	Hotels	Nevada Resort Association	Hotel Employees and Restaurant Employees
	Cement	General Portland, Ideal Basic, Marquette	Cement Workers
May	Utilities	Houston Lighting & Power	Electrical Workers (IBEW)
	Health Service	Health Employers, Inc.	Minnesota Nurses Association
	Aerospace	McDonnell Douglas	Machinists
June	Shipping	Atlantic & Gulf Coast Companies and Tanker Companies	Maritime Union
		Freightship & Tanker	Seafarers
	Railroads	Class I Railroads	13 Unions, including Locomotive Engineers, Signalmen, Train Dispatchers, Transportation Union, etc.
	Hospitals	New York League of Voluntary	Retail, Wholesale, Department Store Union
	Aerospace	Rockwell International	Auto Workers
July	Government	United States Postal Service	Postal Workers, Letter Carriers, Rural Letter Carriers, Laborers
	Supermarkets	Food Employers Council (Los Angeles)	Food & Commercial Workers
	Longshore	Pacific Maritime Association	International Longshoremen & Warehousemen
August	Communications	General Telephone Company of Florida	Electrical Workers (IBEW)
	Aerospace	Beech Aircraft Company	Machinists
September	Shipbuilding	Bethlehem Steel	Marine & Shipbuilding Workers
	Auto	General Motors	Auto Workers, Electrical Workers (IUE)
		Ford	Auto Workers
	Mining	Bituminous Coal Operators	Mine Workers
	Aerospace	Cessna	Machinists
	Food	Kellogg	Grain Millers
October	Agricultural Machinery	International Harvester	Auto Workers
	Transportation	Mack Trucks	Auto Workers

*Construction contracts expire in the period March through June; paper industry contracts are concentrated in spring and summer.
Source: Daily Labor Report (copyright 1983 by The Bureau of National Affairs, Inc. Washington, D.C.) and U.S. Bureau of Labor Statistics.

Ted Marston expects a return to old bargaining practices, for the most part:

"The unions will not agree to zero increases in 1984. The best that most companies negotiating in 1984 can achieve is to get a 2 percent annual increase and COLA. Many companies will also try to put in profit-sharing plans in order to continue productivity gain. Inventories are low and will stay that way through most of 1984. With the unions pushing for traditional increases, and the companies not wanting production interrupted, I see us moving back to more traditional settlements—which would be inflationary."

Focusing on the auto negotiations, most panel members thought that they would result in a rerun of old bargaining formulas. David Lewin explained:

"I believe that there will not be pay freezes or givebacks resulting from collective bargaining at General Motors and Ford Motor in 1984. The improved profit position of both firms, the improved sales and production positions of the domestic auto industry generally, the recalls of laid-off workers and the reduction of idle plant capacity and equipment utilization all portend positive rates of pay (and, perhaps, benefit) increases under bargaining in 1984.

"The big question marks about auto industry bargaining next year, in my judgment, are the future of profit-sharing and the quality of working life and joint productivity committees. Taken together, these arrangements and structures imply a more 'participative' labor-management approach and policy than has existed heretofore. Will management and labor pull back from such participation now that firm and industry profits have improved? I don't think so. Consider that the investments that the parties have made in these and other forms of participation are very large and are viewed by most insiders as long-term investments. Then, the notion of tying at least a portion of employee compensation to the firm's performance has taken hold and could be overturned only at considerable peril to the leaders on both sides of the bargaining table. Third, the programs of quality of working life improvement and joint productivity initiatives are long-term concepts. It defies the imagination to believe that the parties would jeopardize these because of an improved productivity-profitability picture. So I expect 'participation' to continue in its recently expanded forms.

"However, there may be a higher price to be paid for such participation. One form of this higher price will be wage increases that may be in the 6 to 8 percent range annually. Another form of this price will be more restrictive job-security provisions in which the firms will be *less* free to relocate or transfer employees in cases of work force reductions or shutdowns of particular plants. The UAW members' substantial disenchantment with the job-security provisions negotiated in 1982 virtually ensures that these will be modified in the 1984 negotiations."

Ted Marston also sees a return to the "standard" wage formula in the auto industry:

"In some ways, the Ford and GM settlements will be similar to what we have seen in the past. There will be the 3 percent productivity increase, and they will stay with the present COLA formula. There will be little change in benefits coverage. There could be a major change in pay systems. Ford or GM might just try to withdraw significant variable pay schemes that pay employees on the basis of how well the company does. The other nontraditional area that may be addressed is management-union cooperation. It is possible that either Ford or GM might be willing to share some of their management power in order to get full participation from their employees."

In some contrast to this is the assessment of Don Ephlin:

"The 1984 bargaining in the auto industry will be very, very difficult because we are still confronted by serious competitive problems, both from foreign imports and from lower-priced U.S. component manufacturers, many of whom are organized. On the other hand, General Motors and, to a lesser extent, Ford will be reporting relatively large profits for 1983. In my judgment, the preferred outcome would be to maintain a pattern-bargaining relationship between GM and Ford; continue those programs initiated in 1982 to improve job security, control outsourcing, and increase employee involvement.

"The economic improvements in the agreement can be influenced a great deal by the approach taken by the parties on profit sharing as a way to give employees their share of large profits. The alternative course of action would be a return to the 'good old days' approach, which really wasn't so good.

"In my opinion, the use of profit sharing as an instrument of collective bargaining should be expanded, particularly in those industries where pattern bargaining has been the normal approach. In this way, wage and benefit costs can be equal for all producers, thereby eliminating them as competitive factors in building and pricing a product. On the other hand, those employees in the more successful companies (e.g., General Motors) should not be penalized and forced to accept less than their fair share because of the needs of some less competitive companies. Therefore, profit sharing seems an ideal mechanism for workers to share in the wealth that they create without distorting the competitive stiuation within an industry."

Labor-market competition will affect bargaining, it was predicted in the panel meeting, even during the recovery. Companies will be attempting to cut labor costs by hiring more part-time employees and more temporary employees. They will press for two-tier pay systems in which new hires (or rehires) come on the payroll at far lower pay rates. And, finally, an abundant supply of labor makes it more possible than ever before to operate during a strike. This possibility constrains union demands. Moreover, the additional risk that the company may emerge without a union-represented work force is also a constraint on union leaders in the mid-1980's.

Unions represent a smaller and smaller part of the work force; and it seems that the most innovative management practices develop in nonunion settings. Don

Ephlin noted that there are "nonunion firms" and "unorganized firms." The nonunion companies are very well run; involved, fairly treated employees participate in relatively "open" management. The unorganized companies are not well managed, and their employees could be unionized by an appealing labor movement. Ted Marston, whose firm is partly nonunion and partly unionized, said:

> "We have learned in the past few years, that it is in our best interest to have employees contribute ideas that affect their work and to get their ideas on how to improve productivity in the work place. This happens if both parties are willing to give up some of the more traditional adversary ways of dealing with one another. The trend is there, and many companies and unions will take a shot at much more cooperative relationships in their next round of negotiations. I am not very optimistic about their success unless companies are willing to share some of their power with the work force, and the union leaders can get their members to understand the potential for both parties in a cooperative effort."

The Bankruptcy Tactic

In 1983, there have been several attempts by large companies to break out of a high-wage contract by declaring bankruptcy, then announcing new pay scales. Earl Royse said:

> "The resort to bankruptcy by troubled companies is unlikely to spread. It is not only a last resort, but an admission of failure by management—and no one looks forward to failing. There are many options available short of that final choice. For example, we can look at the recent offer of Western Airlines to give up approximately one-quarter of its stock to employees in return for financial relief in the area of labor costs. Such offers are not new and are not always accepted, but they seem to be far more preferable than economic death. Some people would point out that reincarnation has followed such death on occasion, but the federal bankruptcy courts will probably not allow a bankrupt company, in the absence of unusual circumstances, to avoid its financial obligations completely—only to return in another guise. All the firms recently resorting to bankruptcy have histories of severe losses. We may see a few more of these, but not many."

Robert Neylan agrees:

> "To suggest that bankruptcy is going to spread as a strategem for avoiding labor contracts ignores the realities of the process. To go into bankruptcy is a traumatic experience for the company, its employees, suppliers and creditors. Not many companies are going to embark on that course if there is any alternative."

However, Daniel Mitchell feels that the bankruptcy route is a serious threat:

> "Undoubtedly, the bankruptcy route will be tried. Until its legal implications are clear, there will be those willing to take a chance.
>
> "There are serious legal doubts about the bankruptcy strategy. In the Continental Airlines case, the Railway Labor Act may ultimately provide a costly forum for litigation.
>
> "If it appears that management can terminate contracts at will (but unions cannot), unions will be reluctant to sign long-term contracts. The U.S. labor-relations system has been based on legally enforceable long-term contracts. This came about largely at the behest of management. Management wanted fixed periods of guaranteed industrial peace—no-strike pledges in exchange for recognition, a contract, and grievance or arbitration to settle disputes during the contract's life.
>
> "The U.S. management community needs to think about the implications of a situation in which only short-term contracts—good until someone makes a demand—prevail. Does management really want to abandon grievance and arbitration procedures and settle minor disputes with quickie strikes?"

Health-care Cost Containment

A portion of the paycheck of most U.S. employees is "indexed" to the cost of hospital and physician services—health-care coverage. Earl Royse thinks that containing health-care costs is a priority issue:

> "The fact that health-care expenditures have now reached an alarming 10.9 percent of gross national product has already started a struggle over who should bear the burden. Most of the action suggested to address this issue appears to be cost shifting—from employers to employees—which is really not the answer. The strategy must become cost containment through actions like plan redesign, incentives to remain well, consumer resistance to 'health at any price,' ad hoc local business coalitions, preferred-provider organizations (PPO's), health-maintenance organizations (HMO's), and *charging actual users of medical services, rather than spreading the costs over a wide employee base.* (Emphasis added.)
>
> "There has already been significant legislation to address this issue. In the past year, two major pieces of legislation were passed which will directly affect the health-care delivery system in the United States. The first was the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), an attempt by the Reagan administration to reduce the budget deficit by reducing spending. The second was the Social Security Amendments of 1983, which represent an effort to save the Social Security System from default by limiting expenditures.
>
> "The net result of these two laws has been to impose a cap on growth of hospital expenditures and to enforce reimbursement guidelines based on Diagnostic Related Groups (DRG's). These guidelines, developed by the Health Care Financing Administration, will limit reimbursement by the government for specified health care services.
>
> "These cost limits and guidelines currently apply only to inpatient hospital care. However, HCFA has been given the responsibility to develop further guidelines which would apply to other sources of health care including outpatient services, physicians' services, home health care, and skilled

nursing care. Hospitals that are stepping up use of these services as a means of cutting inpatient costs and generating revenues will be most severely affected when the guidelines are extended to these services.

"Other health-care legislation proposed by the Reagan Administration would effectively shift more of the burden of health-care costs to the employer and the consumer. These proposals include a limit to tax-free contributions to employee health plans, a voucher system that would allow Medicare eligibles to purchase insurance coverage from commercial providers, and an increase in co-payments for Medicare beneficiaries during the early stages of hospitalization.

"We believe the health-care industry itself must bear the burden of containing the cost of health services and should be held accountable to do so. It seems to us that doctors have a significant opportunity to help. While they only receive 19 percent of the dollars for health services, they control approximately 80 percent of the costs."

Don Ephlin observed that unions know that rising employer-paid premiums sponge up potential pay increases. For this reason, unions are in favor of health-care cost containment. However, management has never been eager to advocate controlling professional medical charges, perhaps because of the social ties among doctors and executives. Mr. Ephlin added:

"Management efforts to extract concessions aimed at reducing employer costs for health-care benefits have been a (or *the*) critical issue in a number of important UAW strikes of recent years, including those against General Motors (1970), Ford (1976), and Caterpillar (1982). The health-care-cost issue also contributed immeasurably to the difficulties Chrysler and UAW had in reaching (and having ratified) settlements in 1982 and again in 1983.

"These confrontations reflect a consensus in the mainstream of the labor movement to fight off cutbacks in health-care benefits achieved over many years and almost always with great difficulty. Defending existing benefits, however, is clearly a sobering exercise when, as we have found in UAW, the cost of our health-care benefits doubles every five years and crowds wages and other potential benefit gains for attention.

"The simple truth is that stabilizing government's or employers' health-insurance outlays, while the public at large is placed at increasing personal risk, is nothing more than cost shifting. The labor mainstream has rejected the 'punish the consumer' approach of the Reagan Administration, and is actively supporting legislative initiatives that would:

- include all payers of health-care services to prevent cost shifting or unjustifiable payment differentials among various payers;
- place immediate 'caps' on hospital revenues, physician-fee increases, and other service charges during an initial startup period; and
- look to the states to develop their own cost-control programs, based on prospective budgets and negotiated payments for hospitals, doctors, and other health care providers."

John Richardson offered a careful description of the "uncontrols" built into health care, and concluded:

"I believe that unions will not forfeit gains in health care to any appreciable extent. As a matter of fact, the increasing cost of a cherished benefit makes protection that much more important because the loss of significant protection is a threat that most families cannot handle emotionally. This is not to say that there will not be cooperation in trying to find ways to use health dollars more efficiently. I believe that there will be, particularly as the ratio between pay and benefits in the compensation package continues to change. If the basic cost-of-living index stays relatively reasonable, and health care continues to rise disproportionately, the result may be *increased resistance* to giving up medical protection. As it becomes a larger portion of the compensation package, any loss or reduction will represent a larger economic threat.

"Despite the expected public and union positions, most employers will seek a way to reduce their health-care cost liability. In my opinion, employees will be more amenable to cost sharing than they will be to reductions in health-care coverage. Therefore, some employers may succeed in shifting some of the cost to employees; however, my personal feeling is that the cost will be minimal. Where it does occur, it may have the positive effect of decreasing utilization or causing more effective utilization. However, it could have the negative effect of increasing fraud and cheating (for example, through collusion with providers, or withholding coordination-of-benefits information). Acceptable employer alternatives to plan design changes could include encouraging utilization of HMO's; installation of flexible benefit or cafeteria plans; utilization of salary reduction plans; or getting used to the idea that health care will represent an increasing segment of compensation and may require modification of salary-increase programs in order to recognize the changing ratio.

"In view of all this, assuming there is some validity to the expressed concepts, it is difficult to postulate anything other than the continuing public demand for an easily accessible health system with little (or no) accompanying financial pain."

All panelists agreed that some combinations of small steps could be taken to reduce health-cost increases somewhat, and that these would meet with little employee or union resistance. Among these were:

- voluntary second opinion prior to surgery
- preferred provider organization (where employees are represented, with union involvement)
- incentives for accepting ambulatory instead of in-hospital care
- reduction of duplicate coverage and coordination of benefits
- sickness prevention programs

There is less acceptance of cost sharing (on premiums and by increasing deductibles) because these are seen as clear shifting—not reduction—of costs.

Industrial Policy

Proposals for government intervention in the economy that are likely to figure in the 1984 Presidential campaign have been gathered under the slogan "industrial policy." Panel members commented on the political discussion to date. Earl Royse said:

> "In the coming year, we will probably hear more concerning the need for an 'industrial policy' to provide trade protection, subsidies, capital allocation, regulation or deregulation, and tax breaks. The pressure will probably continue to come, however, more in the form of 'special interest' advocacy than as a unitary policy with broad common support. For example, pleas are already being heard from the airline unions for reregulation of that industry. Many industries facing strong foreign competition, from Japan in particular, can make a strong case for specific trade quotas if the reactions and dislocations are ignored. The concept of capital allocation goes to the very heart of the free market system, and would seem to be unworkable.
>
> "In general terms, relaxation of regulation is a good thing, although certainly some controls are necessary. The consumer should dictate capital allocation, business policy, or change of any kind. That is not only a basic business theorem but, within limits, a sound economic policy. The idea is facing the acid test in the airline industry today. And, at this point, the consumer is undoubtedly a beneficiary.
>
> "The 'others get it' argument is a hard one to resist. But that is the danger of attempting to go only a few steps of the way along the path to a controlled economy. Where do you stop? The 'others do it' argument is hard to answer. At what point does enterprise or industry survival outweigh the detriments of government dictation? There would seem to be some point where, for each of our major manufacturing industries, we would not let foreign competition walk all over us just because of their own governments' industrial policies."

Daniel Mitchell is an advocate of planning, and argues this way:

> "I don't think miracles can be expected from 'industrial policy,' economic planning, or whatever you want to call it. The arguments against it (i.e., that special interests will obtain gains from the rest of us from government interventions) have a point.
>
> There is another side to industrial policy, however, and that is social consensus making. It would be a good thing if labor and management and whoever else got together and were given a hard look at economic policy options in an organized framework. If what came out of that exercise was some microlevel responses to macrolevel problems (incomes policy, gain-sharing wage determination, and so on), I would be willing to pay a price to get it.
>
> "Industrial policy could involve something like the following:
>
> (1) Industry councils (labor, management) are given an economic projection of their industry—trends, competition, and so on. Problems over the next decade are discussed.
>
> (2) *If* the industry can reach a consensus concerning what economic assistance it would like, it submits the proposal to a review authority.
>
> (3) The review authority comes back and tells the industry what the price of the assistance will be in terms of what the review authority wants in return. In general, the review authority would insist on adherence to macro objectives, plans to restore competitiveness within a fixed period, gain-sharing systems of wage adjustment, progress reports with cutoffs of aid if deviations occur, and so on, and its suggestions for improving the plan.
>
> (4) In reviewing plans, the review authority would give opportunity for comment to interested parties including suppliers and customers. While the reviewing authority might have some discretionary authority to provide aid, in general, plans would have to be approved by Congress to the extent they involved tax law, antitrust, and such. This means that Congress would probably not be receptive to legislation that attempted to circumvent the reviewing machinery. An industry coming in with a bill for, say, trade protection—but without reviewing authority endorsement—might not find a receptive climate."

Don Ephlin offered, from UAW congressional testimony, a full industrial policy statement. An excerpt follows:

> "There needs to be a National Strategic Planning Board, in the Executive Branch, led by a multipartite executive committee assisted by a permanent staff of outstanding technical personnel. It should coordinate and provide overall direction to (a) various sectoral committees charged with developing strategies for specific industries; (b) a National Strategic Development Bank empowered to make long-term loans to, or take equity in, companies undergoing Board-certified restructuring; and (c) a National Civilian Technology Administration that could make grants and provide technical assistance to firms getting started in new growth areas of the economy.
>
> "In order to lead the nation's industrial policy efforts, the Board must be able to coordinate the demands of the different sectoral and regional plans forwarded to it by industry strategy committees. For that, it needs a detailed picture of how industries fit together in the economy: how much of steel's output goes to auto, what share of semiconductor shipments are for the machine tool industry, etc. To draw this picture, the Board needs to emphasize input-output analysis.
>
> "Second, the Board needs to bring itself up to speed on specific industries and companies. Some useful firm- and industry-level data are today only in the hands of private business. Gaining access to such data, in ways that protect its proprietary status, is essential if the Board and the industry committees are to devise sensible, consistent sectoral plans.
>
> "Part of competent industrial policy is cost-effectiveness. When all costs are enumerated, this test will often favor the reuse of existing resources over their duplication elsewhere. It is therefore critical that the Board be able to assess which facilities are most convertible to the production of alternative product lines, to identify which such alternatives are

most promising, and to devise protections for dislocated workers. Thus there should be established, within the Board, a Bureau of Conversion Assistance that could use conversion to avert plant closings and to reopen previously closed facilities."

Reacting to the "tripartite council" (management, labor, government) proposals of some public figures, Robert Neylan said:

"The proposal takes a simplistic approach to a complex problem and is founded on some assumptions that are, at best, questionable. It assumes, for example, that 'the problems of our smokestack industries' are not already well on the way toward being solved. Some of us may not like the solution, but there certainly seems to be one on the way: Inefficient capacity is being shut down, more efficient capacities will serve the markets in which they can survive; and foreign competition will get what is left.

"It seems to me that all the rhetoric surrounding 'industrial policy' is aimed at turning back the clock, and it comes 20 years too late. This is not Switzerland or Lichtenstein where you can put all the decision makers in one room and keep them there until they come up with an 'industrial modernization agreement.' When we speak about labor representation, who is going into the room? Representatives of 20.9 percent of the work force? Management would perhaps be represented by at least some of the automakers. They started in 1960 with a virtual monopoly in the world's largest car market and look what they have done with it in 20 short years!

"The true value of goods and services is determined in the marketplace. This process is going on all the time in our economy. U.S. Steel buys Marathon Oil and implicitly concedes some portion of the steel market to someone else, probably a foreign producer. Its judgment is that steel is not a business in which additional investment would be productive. General Motors is doing the same thing somewhat differently by combining with Toyota to produce small cars in California. GM has spent billions to modernize plants, millions on retraining; and its judgment is that Toyota has expertise worthy of the venture.

"Should labor agree to tie its wages to productivity as part of some overa' social compact? I don't think so. If management is free to direct capital where it will, then labor should be free to get all it can. No, to me the industrial policy proposal is a blueprint for a level of regulation far in excess of anything we have ever had except in wartime. And our experiences with controls, even in wartime, have been something less than satisfactory."

However, Neylan does favor some ad hoc government assistance, and some negotiated trade restraints:

"I do not believe that we can maintain our national standard of living solely on the basis of high tech and service. We need basic industry (steel, auto, rubber, and so on) as the foundation for our economic system. We have to recognize that the basic industries will not resemble those of the past. They will be smaller, employ fewer people, and will concentrate on producing those goods that others cannot produce.

"The growing discussion of industrial policy is really a challenge to the private sector. Government should do only what the private market cannot do. The demands for retooling, rebuilding and reeducation cannot be left wholly to the private sector. It simply will not have the resources. The government should intervene to avoid catastrophe. Chrysler and Lockheed are examples, but the private sector must be prepared to take its share of the risk. This is a far cry from what many proposals suggest. The notion that one central agency can catalog our failings and devise solutions is doomed to failure. Our society is too complex and too loosely knit to submit to a central plan."

The panel discussants agreed that structural change in the economy is moving rapidly and is unsettling to all. Perhaps the reason for the current "industrial policy" proposals is that we cannot cope with competition, much as we call it the "American way." Thus a vague collection of government aid proposals can attract adherents, each in hope of gaining power to quell the competitor. David Lewin commented:

"Recall the ballyhoo about economic planning that developed during the 1974-1976 recession, which died out as soon as recovery set in. I believe that as the present recovery continues and picks up steam, most of the breast-beating about industrial policy will also die away. And what remains will typically be a catchphrase for those firms and industries that are seeking protection from one or another competitor or market force."

A summary statement of the day's discussion would have to stress the effect that competition is having, especially on the efficient management of our labor resource. Ted Marston made this statement:

"The major issue facing companies like Cummins and their unionized work forces is how to stay competitive in worldwide markets. Our willingness to work together in the next three to five years to accomplish this objective will determine how long we will be around. We must learn how to increase our productivity, become more efficient, improve our quality, and lower our costs. We can't do it without a cooperative effort from all of our employees.

"It is possible that an 'industrial policy' addressing protection, subsidy, and so on, will only deter us from dealing with the real problem ourselves. For the past decade we have been able to pass on all of our mismanagement and ineffectiveness to our customers. Both management and the unions have been responsible for this situation and it is our responsibility to work together to correct it. I would like to see more interest from the public sector in the cooperative efforts being started by many companies across the country. Long term, the pressure to become productive and competitive through our own efforts will make us a much stronger company. We cannot count on the government to save us from our inability to manage."